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C O N F I D E N T I A L SECTION 01 OF 02 DUBAI 000857

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TAGS: TC IR PGOV PREL ETRD EPET
SUBJECT: IRANIAN OIL MINISTER TO RENEGOTIATE UAE GAS DEAL

REF: A. A. 05 DUBAI 4987
 1B. REF B. DUBAI 0003
 1C. REF C. DUBAI 0053

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CLASSIFIED BY: Jason L. Davis, Consul General, Dubai, UAE.
REASON: 1.4 (b), (c), (e)

1.(U) Summary: On January 30, the Director General of Iran's State Audit Council, citing corruption, called for the 2001 natural gas contract with two UAE companies (Sharjah-based companies Crescent Petroleum and Dana Gas) to be cancelled, and for oil officials responsible for it to be investigated. Two weeks later, Iranian Oil Minister Seyed Kazem Vaziri-Hamaneh publicly defended the deal, signed under the last administration, but made clear his ministry would in fact be renegotiating the terms. The press is reporting that the gas production start-up date has been pushed back from its initial November 2005 date because of delays in distribution infrastructure on the UAE side. End Summary.

Claims of Corruption

2.(U) At a January 30 press conference, Mohammad Reza Rahimi, Director General of Iran's State Audit Council, called for the Majles to revoke the natural gas contract signed in 2001 between the National Iranian Oil Company (NIOC) and Sharjah-based Crescent Petroleum (CP). CP had already awarded the distribution contract to a partly owned subsidiary, Sharjah-based Dana Gas, whose IPO was completed last October (ref A). Rahimi accused corrupt NIOC officials of giving unjustifiably favorable pricing terms to CP and called for the officials who signed the contract to be punished. Rahimi also accused CP of acting merely as a "brokerage company," since it awarded distribution rights to Dana Gas. Claiming CP will earn 4 billion dollars in profits, Rahimi called for a government-to-government contract to replace the current agreement and eliminate this extra cost.

Ahmadinejad Emboldens His Oil Minister?

3.(U) Iranian President Ahmadinejad, in what was characterized by Iranian IRIB News as a "surprise visit" to the oil ministry February 13, met with "senior managers" there for two hours to discuss ongoing projects. He reportedly praised their efforts and said they were attempting to improve the country and serve the nation. In a possibly related statement the following day, Iranian Oil Minister Seyed Kazem Vaziri-Hamaneh defended the signing of the CP contract but implied he would be renegotiating

it. "The contract was signed during the tenure of (the) former oil minister and there was nothing wrong with it at that time, because the oil price was low," he told IRIB News.

4.(U) On February 15, Vaziri-Hamaneh criticized the State Audit Court for raising public outcry against the Oil Ministry. Referring to the CP contract, Vaziri-Hamaneh went beyond his earlier statement, making it completely clear that the contract was under renegotiation. He said, "no contract has been implemented and no gas has been exported on the basis of the draft contract," according to IRIB News. Vaziri-Hamaneh says that new negotiations are taking place to adjust the prices - first agreed to in 2001 - to reflect the current market.

Delays in Sharjah

5.(C) A Tehran Times article in late January claimed that in addition to the pricing issues, there has been a lack of progress on the distribution infrastructure in Sharjah. Because of the delays in Sharjah, the gas production start-up date has been pushed from November 2005 to later this year. (As reported in late December (ref B), PoleEconoffs saw hundreds of sections of 48-inch pipe for Dana Gas infrastructure being unloaded from ships and onto trailers at the Hamriya Free Zone.) The Tehran Times also claims the Iranian-side has already laid 147-kilometers of pipeline from its Salman field to the Iranian island of Sirri, and another one from Sirri to the Mobarak oil field, which Iran shares with the UAE.

Background

6.(C) Embassy and Consulate General officials have frequently underscored USG opposition to investment in Iran's petroleum sector and the troubling nature of CP/Dana Gas' plans to bring Iranian gas to the UAE and to create an infrastructure for doing so. We have also warned UAE officials that the "leverage" in this gas deal will likely accrue to Iran as the gas supplier and

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not to the UAE. UAE officials have acknowledged the risk, but stressed that the UAE needs gas. UAE Federal officials and Abu Dhabi Emirate officials have also noted the complicated nature of the UAE, whereby individual emirates control their own natural resources. The October 2005 \$561 million IPO for shares of Dana Gas was the largest IPO in the UAE, with thousands of GCC nationals traveling to the UAE for shares (ref A).

Comment

7.(C) Iranian President Ahmadinejad has made repeated calls to rid NIOC and the Oil Ministry of a purported "oil mafia." Our contacts have not had any information on such a group (ref C), but that is not to say it does not exist. In any case, it seems likely Rahimi's criticism is being used by the government as an excuse to renegotiate the CP/Dana Gas contract on terms more favorable to Iran (and more in line with current prices).
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